COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF THE RATES)	
OF KENTUCKY-AMERICAN WATER) CASE NO.	97-034
COMPANY EFFECTIVE ON AND AFTER)	
MARCH 30, 1997)	

ORDER

On October 21, 1997, the Attorney General's Office, Utility and Rate Intervention Division ("AG"), filed an application for rehearing of the Commission's September 30, 1997 Order approving new rates for Kentucky-American Water Company ("Kentucky-American") to produce additional revenue of \$1,049,884 annually. The AG seeks rehearing on three issues: (1) the exclusion of amortizations from cash working capital requirements; (2) a reconciliation of Kentucky-American's forecasted net operating income of \$10,899,642 with the Commission's forecast of \$10,945,391; and (3) the reduction to forecasted depreciation expense to reflect the cost savings resulting from the meter testing deviation.

On the first issue, the AG claims that Kentucky-American agreed that amortizations should be excluded from cash working capital requirements, but the Commission's September 30, 1997 Order does not reflect their exclusion. The Commission finds that while the exclusion of amortizations was not specifically discussed in the Order, they were excluded as shown by the worksheets attached hereto as Appendix A.

On the second issue, the AG states that starting with Kentucky-American's forecasted net income of \$10,899,642 and making the adjustments described in the September 30, 1997 Order should result in a Commission forecast of \$10,990,491, as shown in the AG's reconciliation attached to his application for rehearing. However, the AG notes that this amount exceeds the Commission's actual forecast of \$10,945,391 by \$45,100. Based on a review of the AG's reconciliation, it appears that the AG has omitted the \$45,101 reduction attributable to deferred income tax expense as described on page 14 of the September 30, 1997 Order. Including this adjustment in the AG's reconciliation reduces the difference to \$1, which is attributable to rounding the numbers.

On the third issue, the Commission reduced forecasted depreciation expense by \$28,269 to reflect the cost savings due to a meter testing deviation. The \$28,269 amount is the net-of-tax expense reduction. As correctly noted by the AG, the Commission should have utilized the pre-tax amount of \$29,055, which would reduce expenses by an additional \$786. This additional reduction in expenses, after reflecting the effect of income taxes, results in a reduction in revenue requirements of \$790 annually. Due to the de minimis amount of this reduction, it can only be reflected in rates by lowering the meter rates for water consumed.

IT IS THEREFORE ORDERED that:

- 1. The meter rates set forth in Appendix B, attached hereto, are approved for service rendered on and after the date of this Order.
- 2. All provisions of the September 30, 1997 Order, except as modified herein and in Appendix B hereto, shall remain in full force and effect.

The AG's petition for rehearing, except as discussed above, is denied.
 Done at Frankfort, Kentucky, this 5th day of November, 1997.

PUBLIC SERVICE COMMISSION

hairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-034 DATED 11/5/97

APPENDIX A CASE NO. 97-034 CALCULATION OF CASH WORKING CAPITAL

Page 1 of 3.

Total Operating Funds Average Daily Operating Funds Composite Average Days Interval Between: (A) Date Service Furnished and Date Collections Deposited		
Average Daily Operating Funds Composite Average Days Interval Between: (A) Date Service Furnished and Date Collections Deposited		100 300 30e
Average Daily Operating Funds Composite Average Days Interval Between: (A) Date Service Furnished and Date Collections Deposited		161,022,004
Composite Average Days Interval Between: (A) Date Service Furnished and Date Collections Deposited		\$96,512
(A) Date Service Furnished and Date Collections Deposited		
	35.84	
(B) Date Expenses Incurred and Date of Payment	25.91	
(C) Net Interval	9.93	
Total Working Capital		\$958,364
Use		\$958,000

Payolis Charged to Epo-UnionAST Group Financiasied Commission Adjusted Class Payolis Charged to Epo-UnionAST Group St. 256.594 Amount Class Payolis Charged to Epo-UnionAST Group St. 256.594 St. 252.595	No.		Supplier S				
Payrolls Charged to Exp. Union/AST Group \$3,258,634 (56,85) (5	ļ	DESCRIPTION	Forecasted Amounts	Commission Adjustments	Adjusted		
Payrolia Characte Legans	- c					(1500) (100)	Dollar Days
Payrolac Chargest December 1, 252, 176 (28, 851) 1, 1766, 076 (28, 87) 1, 1766, 076 (28,	7		100 00	•			
Chemical and Experies - Salarine (1923-110 (19	o v	Payrolls Charged to Exp - Union/AS1 Group	43,295,934		\$3,295,934	9.50	\$31,311,373
Chemicals Chem	r 4	First Democrated Clocking	1,023,927	(108,851)	1,765,076	00.9	10,590,456
Service Company Changes 1,482,1783 30,49 Survice Company Changes 1,482,178 1,433,024 5,56 Good historineals 6,566 (13,801) 6,42,224 5,55 Good historine Changes 265,666 (13,801) 6,42,224 5,72 Good historine Changes 265,666 (13,801) 6,24,224 5,72 Transportation Expense 265,696 (13,801) 6,54,224 5,72 Transportation Expense 1,72,828 0 79,928 1,72 Transportation Expense 1,72,82,690 0 255,596 2,72 Stock E Maintenance Expense 1,72,721 (12,9,648 1,72) 1,123,31 Amortization of Expense 1,72,721 (12,9,748 1,72,714 0 000 Depreciation and Amortization 4,405,413 (12,802) 1,164,112 0 000 Deferred Income Taxes Current - SIT 4,43,820 1,44,140 5,283 1,108 Interest Expense - Long - Term Debt 5,73,517 1,162,218 (14,902) Interest Expense - Long - Term Debt 5,73,517 1,44 0 000 Average Days Interest Expenses are Incurred and Date of Payment 27,413 1,168,218 (14,902) Average Days Interest Expenses are Incurred and Date of Payment 27,413 1,168,218 (14,903) Commission Adjustment to Deferred Maintenance Amortizations (14,903) Commission Adjustment to Deferred Maintenance Amortizations (14,903) Total Amortization Adjustment Lead/Lag Study	n (ruei, rower and Electric	1,629,110	0 !	1,629,110	35.76	58,256,974
State Compared Charges 1,482,100 19,066 1,403.034 5-5.56 Coup insurance Character 1,482,100 19,066 1,403.034 5-5.56 Coup figurance Character 1,565,890 0 265,990 0 265,990 0 2014 Rents possible Expense 77,928 0 72,924 0,501 Rents possible Expense 77,928 0 72,928 0 12,27 Rents possible Expense 1,29,48 0 12,948 0 12,27 Rents possible Expense 1,29,48 0 12,948 0 12,27 Rents possible Expense 1,29,48 0 12,27 Rents possible Expense 1,29,48 0 12,27 Rents possible Expense 1,515,902 0 14,409,228 0 10,000 Rents possible Expense 1,515,902 0 14,409,209 0 10,000 Rents possible Expense 1,515,902 0 10,000 Ren	ρı	Chemicais	839,678	14,115	913,793	30.49	27,861,549
Comparison	_ `	Service Company Charges	1,492,100	(89,066)	1,403,034	-5.56	(7.800,869)
Particular	~	Group Insurance	638,065	(13,801)	624,264	-5.72	(3.570.790)
Transportation Expense 265,990 0 265,990 4779	တ	Opeb	546,564	(84,320)	462.244	(0.50)	(231 122)
Transportation Expense 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 0 265,980 122,27 266,090 265,980	9	Insurance Other than Group	306,034	` o	306.034	47.19	(22), (22)
Rents	7	Transportation Expense	265,980	. 0	265 980	20.14	750 356 3
Total Promose Expense 129 846 0 129 846 122 7 122 7 122 846 0 123 846 122 7 122 846 0 123 846 122 7 122 846 0 123 845 123 847 123 847 123 845 123 847 123 845 123 847 123 845 123 847 12	12	Rents	79,928	0	79.928	-0.61	3,330,637
Stock	13	Telephone Expense	129.848	· c	129.848	10.01	(40,730)
Maintenance Expense	4	Postage Expense	395,585	o C	395 585	23.47	1,093,230
Amountzation between Expense 774 213 (92,609) 681,604 36.33 Amortization Uncollectibles 27.384 (44,617) 627,877 0.00 Pensions Uncollectibles 27.384 (44,577) 173.331 0.00 Pensions Detectation and Amortization of Taxes Other Uncollectibles 1,618,544 (45,727) 1,13.331 0.00 Depreciation and Amortization of Taxes Other than Income Taxes Other Taxes Other than Income Taxes Other Taxes Other Taxes Other Taxes Other than Income Taxes Other Taxes O	15	Stock E	49.318	o c	40.000 40.318	75.57	9,264,360
Amortization Universities Un	9	Maintenance Expense	774 213	(0) 8(0)	43,510	28.03	1,382,384
Uncollectibles 92,364	12	Amortization	12,213 101 101 101	(32,003)	507,004	30.33	24,762,673
Pensions Other Operating Expenses 1,518,544 1,6132 1,1614,172 1,173,310 0,000	. <u>e</u>	Uncollectibles	92,434	(/lo'#)	110,120	00.0	0
Other Operating Expenses 1,516,542 (416,092) 14,409,528 10.00 Total O & M. Expenses 1,516,542 (416,092) 14,409,528 10.00 Taxes, Other than Income 6,943 (129) 6,814 777,144 0.00 Taxes, Other than Income 7,504 (129) 6,814 775,144 755,144	<u> </u>	Pensions	245,000	(47.574)	92,330	0.00	0
Depreciation and Amortization 4,405,413 (28,269) 4,377,144 0.000 Taxes, Other than Income Payola 1,101,411.2 Taxes, Other than Income Payola 1,177,629 (4,431) 1,168,128 (6,814 7,514 7,514 7,514 7,529 (6,411 1,168,128 6,938 7,144 7,514 7,529 (6,411 1,168,128 6,938 7,144 7,514 7,529 (6,411 1,168,128 6,938 7,144 7,514 7,529 (6,411 1,168,128 6,938 7,100	: E	Other Operating Expenses	1 640 644	(176,24)	1,0,001	00.0	0
Depreciation and Amortization 4,405,413 (28,268) 4,377,144 0000 Taxes, Other than Income 6,943 (129) 6,814 75,29 Payroll - FUTA 6,944 (1431) 380,268 11.08 Payroll - FICA 384,689 (4,431) 380,268 11.08 Income Taxes - Current - SIT 1,77,629 (9,411) 1,168,218 6,986 Income Taxes - Current - FIT 1,943,820 15,410 2,037,970 38,500 Deferred Dividend Taxes and Taxes 1815,652 15,000 12,000 Interest Expense - Long - Term Debt 7,711 15,000 12,007,970 10,000 Interest Expense - Short - Term Debt 7,711 15,000 12,007,970 10,000 Interest Expense - Short - Term Debt 7,711 15,000 12,007,970 10,000 Interest Expense - Short - Term Debt 7,711 15,000 12,007,970 10,000 Interest Expense - Short - Term Debt 7,711 15,000 12,007,970 10,000 Interest Expense - Short - Term Debt 7,711 15,000 12,007,970 12,000 12,	Z (Total O & M Expenses	14.825.620	(416.092)	14 409 528	21.44	34,607,848
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Taxes, Other than Income 6,943 (129) 6,814 75,29 Payroll - FUTA	ಜ	Depreciation and Amortization	4,405,413	(28,269)	4,377,144		C
Payroll - FUTA 6,943 (129) 6,814 75.29 Payroll - FUTA 94,689 (4,431) 380,286 11.08 Payroll - FICA 384,689 (4,431) 380,286 11.08 Payroll - FICA 384,689 (4,431) 380,286 11.08 Payroll - FICA 38,089 (4,431) 11,168,218 69.86 Income Taxes - Current - SIT 434,826 39,603 474,229 69.86 Income Taxes - Current - FIT 1,943,820 15,32,367 38,50 Deferred Income Taxes - Long - Term Debt 5,339,17 122,950 5,322,467 90.45 Interest Expense - Short - Term Debt 274,199 47,505 31,704 45,633 Perferred Dividends Net Operating Funds \$34,899,138 0 \$355,226,797 Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval Debt 274,899,138 0 \$355,226,797 Average Days Interval Debt Expenses are Incurred and Date of Payment Total Amortization Adjustment Lead/Lag Study Total Amortization Adjustment Lead/Lag Study	24	Taxes, Other than Income					
Payroll - SUTA	52	Payroll - FUTA	6,943	(129)	6,814	75.29	513 026
Payroll - FICA	စ္တ	Payroll - SUTA	5,504	(94)	5,410	75.14	406 507
OTHER Income Taxes - Current - SIT Income Taxes - Current - FIT Income Taxes - Short - Term Debt	27	Payroll - FICA	384,689	(4,431)	380,258	11.08	4.213.259
Income Taxes - Current - SIT	æ :	OTHER	1,177,629	(9,411)	1,168,218	69.86	81.611.709
Deferred Income Taxes	g: :	Income Taxes - Current - SIT	434,826	39,603	474,429	54.25	25.737.773
Interest Expense	⊋ :	Income Laxes - Current - FIT	1,943,820	154,150	2,097,970	38.50	80,771,845
Interest Expense - Long - 1em Debt 5,379,517 152,950 5,532,467 90.45 Interest Expense - Short - Term Debt 274,199 47,505 321,704 45.63 Preferred Dividends 561,454 0 561,454 45.63 Net Income 4,684,472 346,797 5.031,269 0.00 Net Operating Funds \$34,899,138 0 \$35,226,797 Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred Amortizations - Henkes Prefiled Testimony pages 12 through 24. (\$37,503) Commission Adjustment to Deferred Maintenance Amortizations Total Amortization Adjustment Lead/Lag Study Total Amortization Adjustment Lead/Lag Study	<u>بر</u> د	Deterred Income Taxes	815,052	45,080	860,132	0.00	0
## AG's Adjustment to Amortization Adjustment Lead/Lag Study Preferred Expense - Short - 1em Debt	2 2	Interest Expense - Long - Term Debt	5,379,517	152,950	5,532,467	90.45	500,411,640
Net Income	3 ;	Interest Expense - Short - Lerm Debt	274,199	47,505	321,704	45.63	14,679,354
Net Operating Funds Net Operating Funds Average Days Interval between Date Expenses are Incurred and Date of Payment * AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24. Commission Adjustment Lead/Lag Study Total Amortization Adjustment Lead/Lag Study	*	Preferred Dividends	561,454	0	561,454	45.49	25,540,542
Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval between Date Expenses are Incurred and Date of Payment Average Days Interval Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24. (\$37,503) (\$37,503) Total Amortization Adjustment Lead/Lag Study Total Amortization Adjustment Lead/Lag Study	ဂ္ဂ ဇ္	Net income	4,684,472	346,797	5,031,269	0.00	0
Average Days Interval between Date Expenses are Incurred and Date of Payment * AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24. Commission Adjustment to Deferred Maintenance Amortizations Total Amortization Adjustment Lead/Lag Study	8 2 2	Net Operating Funds	\$34,899,138	0	\$35,226,797		\$912,800,083
* AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24. Commission Adjustment to Deferred Maintenance Amortizations Total Amortization Adjustment Lead/Lag Study	g ⊆		are Incurred and I	Date of Payment		25.01	
* AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24. Commission Adjustment to Deferred Maintenance Amortizations Total Amortization Adjustment Lead/Lag Study	Ξ.						
Total Amortization Adjustment Lead/Lag Study	ភូឌ្	 AG's Adjustment to Amortization Commission Adjustment to Defe 	ıs - Henkes Prefile rred Maintenance	ed Testimony page: Amortizations	s 12 through 24.	(\$)	37,503) (7,114)
81	2 9 5	Total Amortization Adjustment L	ead/Lag Study			♦)	44,617)
6	<u>.</u> ഇ						
							

Commission Dollar Days	\$478,657,255 0	3,390,231 0	(34,444,582)	\$447,602,904					
ى د	5 .	09	9	"	13.10	0.00	0.00	35.84	
Ky-American's Median Service Days	15.21	7.60	-15.26			nd the	the	Sollections	
Commission Adjusted Amount	\$31,469,905	446,083	2,257,181	\$34,173,169	vice Davs	Number of Days between the Reading Date and the Billing Date	Number of Days between the Billing Date and the Date the Bills are Paid	Total Average Days' Interval between Number of Days from Date Services are Furnished to Date Collections are Received	
Commission Adjustments	21,698	0	0	"	Average Median Service Davs	lumber of Days betw Billing Date	lumber of Days between Date the Bills are Paid	otal Average Days' from Date Services are Received	
Ky-American's Forecasted Amounts	\$31,448,207	446,083	2,257,181	\$34,151,471	4	Z	Z	-	
	Monthly - Arrears Full Bills	Monthly - Arrears Partial/Final Bi	Fire Service	Total =					

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-034 DATED NOVEMBER 5, 1997

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SERVICE CLASSIFICATION NO. 1

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided herein.

Customer	Rate Per 1,000 Gallons	Rate Per 100 Cubic Feet
Category	All Consumption	All Consumption
Residential	\$2.07293	\$1.55470
Commercial	1.95612	1.46709
Industrial	1.56641	1.17481
Municipal and Other		
Public Authority	1.87384	1.40538
Sales for Resale	1.79261	1.34446